

## Message Text

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S E C R E T MOSCOW 14182

NODIS

CHEROKEE

FROM ROBINSON

E.O. 11652: GDS

TAGS: ETRD, EEWT, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

REF: STATE 237177

1. SUMMARY - I MET TODAY WITH PATOLICHEV AND KUZMIN FOR A 3-HOUR SESSION ACCOMPANIED BY AMBASSADOR STOESSEL ONLY. WE COVERED FOUR ISSUES IN OUR DISCUSSION: (A) I REPORTED THAT THE MARITIME AGREEMENT EXTENSION WOULD BE HANDLED BY AN EXCHANGE OF TELEGRAMS BETWEEN THE US MARAD AND THE SOVIET MINISTRY OF MERCHANT MARINE. I EXPRESSED OPTIMISM THAT THIS MATTER COULD BE SATISFACTORILY RESOLVED IN THIS WAY; (B) I EXPLAINED THAT THERE WERE A NUMBER OF QUESTIONS REGARDING THE LONG-TERM GRAIN AGREEMENT WHICH WERE BEING DISCUSSED WITHIN GRAIN WORKING GROUP. I WAS CONFIDENT THAT WE WOULD FIND SOLUTIONS TO THESE QUESTIONS BUT WE STILL HAD THE BASIC ISSUE OF THE ESCAPE CLAUSE AND IT WAS ESSENTIAL THAT WE FIND A SOLUTION TO THIS PROBLEM. PATOLICHEV SUGGESTED A US LETTER DEFINING OUR POSITION WHICH COULD BE REFERRED TO IN THE AGREEMENT ITSELF. WE AGREED TO EXPLORE THIS POSSIBILITY; (C) I EXPRESSED INTEREST IN THE QUANTITY OF GRAIN WHICH THEY ANTICIPATED PURCHASING IN THE US ONCE WE HAD CONCLUDED THE LONG-TERM AGREEMENT. I EXPLAINED THAT WE WERE WILLING TO CONSIDER THEIR NEEDS AND ASSUMED THAT

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THIS WOULD BE ON THE ORDER OF 5 MILLION TONS. PATOLICHEV CON-

TINUED TO EVADE THIS QUESTION, FOLLOWING HIS USUAL TACTIC OF INDICATING THAT WITH EACH DAY'S DELAY THE AMOUNT OF GRAIN TO BE PURCHASED IN THE US WAS REDUCED BY THEIR PURCHASES FROM OTHER COUNTRIES; (D) WE PRESENTED A DRAFT OF THE OIL LETTER OF INTENT WHICH IMPLIED AN ATTRACTIVE PRICE BELOW WORLD MARKET LEVEL. WE FACE A SERIOUS PROBLEM IN THIS AREA BUT AGREED THAT WE WOULD CONSIDER THE MATTER OVER THE WEEKEND AND RESUME NEGOTIATIONS ON MONDAY. END SUMMARY.

2. IN MY MEETING WITH PATOLICHEV AND IN A PARALLEL MEETING OF THE GRAIN WORKING GROUP, WE ENDEAVORED TO ACHEIVE THE RESULTS SET OUT IN REFTEL. WE MADE SOME PROGRESS IN MORE CLEARLY DEFINING THE ISSUES BUT FACE AN UPHILL BATTLE IN OUR EFFORTS TO ACHIEVE THE DESIRED RESULTS. THE DISCUSSION OF THE GRAIN WORKING GROUP WILL BE REPORTED IN SEPTTEL. HOWEVER, IT IS CLEAR THAT WE HAVE A SERIOUS CONFRONTATION OVER OUR INSISTANCE ON A UNILATERAL RIGHT TO REDUCE THE 6 MILLION TON GRAIN COMMITMENT. WE WILL CONTINUE TO EXPLORE VARIOUS ALTERNATIVES TO RESOLVE THIS DIFFICULT PROBLEM.

3. IT IS IMPORTANT THAT WE RESOLVE THE MARITIME AGREEMENT ISSUE AS PROMPTLY AS POSSIBLE. WE ARE SATISFIED WITH THE TEXT OF THE WIRE US MARAD PROPOSES TO SEND TO THE SOVIET MINISTRY OF MERCHANT MARINE IF JOHN DUNLOP AGREES THAT THIS WILL SATISFY THE AFL/CIO. HOPEFULLY THIS WIRE WILL BE SENT TODAY SO THAT WE CAN HAVE THIS PROBLEM BEHIND US MONDAY LATEST.

4. WITH REGARD TO THE SOVIET REQUIREMENTS FOR ADDITIONAL GRAIN PURCHASES THIS YEAR, I AM CONVINCED THAT THE SOVIETS HAVE MADE SOME PROGRESS IN REDUCING THEIR NEEDS BY INTERNAL CONSERVATION EFFORTS AND THROUGH ACQUISITION OF GRAIN FROM OTHER COUNTRIES. ALTHOUGH WE UNDOUBTEDLY STILL HOLD A KEY CARD IT IS IMPORTANT THAT WE AVOID OVERPLAYING OUR HAND IN THESE NEGOTIATIONS. OUR ENTIRE NEGOTIATING TEAM SHARES THE VIEW THAT OUR BARGAINING LEVERAGE STEADILY DECLINES AS WE APPROACH THE OCTOBER 10 CROP REPORT DATE.

5. I BELIEVE THAT THE LETTER OF INTENT ON OIL CAN BE SIGNED SIMULTANEOUSLY WITH CONCLUSION OF THE LONG-TERM GRAIN AGREEMENT. HOWEVER, THERE ARE TWO QUESTIONS RASIED BY THE  
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INSTRUCTIONS RECEIVED TODAY IN REFTEL: (A) DOES THE INSISTANCE ON A 30-DAY LIMIT REALLY SERVE OUR INTERESTS? ALTHOUGH IT COULD PROVIDE A POLITICAL ADVANTAGE IN INDICATING WE ARE ABOUT TO CONCLUDE AN OIL AGREEMENT, IT COULD ALSO BECOME A LIABILITY IF AS IS LIKELY, WE ARE UNABLE TO CONCLUDE AN AGREEMENT WITHIN THE 30-DAY TIME LIMIT; (B) OUR INSISTANCE UPON WORDING IN THE LETTER OF INTENT WHICH IMPLIES THAT THE PRICE WILL BE BELOW THE WORLD MARKET IS VIEWED BY THE SOVIETS AS AN UNACCEPTABLE EFFORT TO

APPLY LEVERAGE ON THEM IN PUBLIC. THEY WILL INSIST ON SOMETHING THAT WOULD APPEAR TO BALANCE AND USSR INTERESTS. PATOLICHEV HAS ACCEPTED THE NEED FOR AN ATTRACTIVE PRICE BELOW COMPETITIVE LEVEL BUT WILL RESIST ANY EFFORT ON OUR PART TO PROCLAIM THIS PUBLICLY. I BELIEVE THAT REGARDLESS OF THE PRESSURE WE MIGHT APPLY WE WILL NOT BE ABLE TO GET HIM TO CHANGE THIS POSITION. ALTHOUGH WE WILL MAKE EVERY EFFORT TO ACHIEVE THE PRICING OBJECTIVE REQUESTED IN REFTEL I HOPE IF NECESSARY, THAT I WILL BE AUTHORIZED TO ACCEPT OUR INITIAL PROPOSAL TO WASHINGTON THAT PRICES BE "MUTUALLY AGREED". THIS WOULD IN NO WAY RESTRICT OUR NEGOTIATIONS ON THIS ISSUE IN THE OIL AGREEMENT. MOREOVER, THE WORLD IS MORE LIKELY TO READ THIS AS A SIGNIFICANT CONCESSION TO THE US IN EXCHANGE FOR OUR WILLINGNESS TO PROVIDE GRAIN TO MEET CURRENT SOVIET NEEDS.

6. WE HAVE AGREED WITH PATOLICHEV TO TAKE A "TIME OUT" ON SUNDAY WITH RESUMPTION OF OUR NEGOTIATIONS NOW SCHEDULED FOR MONDAY MORNING. I HAVE ADVISED PATOLICHEV THAT I HAVE DEFERRED MY DEPARTURE UNTIL TUESDAY ON THE ASSUMPTION THAT THIS SHOULD ALLOW US TO REACH A FINAL AGREEMENT ON BOTH GRAIN AND OIL. HOWEVER, WE WILL PLAY THIS BY EAR RECOGNIZING THE POSSIBILITY OF A FURTHER DELAY IN MY DEPARTURE FROM MOSCOW IF THIS HOLDS PROMISE OF BRINGING THESE DIFFICULT NEGOTIATIONS TO SUCCESSFUL CONCLUSION.

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